



Proliferation Financing



Dissecting Proliferation Financing:-

Weapons of Mass Destruction - Weapons of Mass Destruction (WMD) can kill a large number of persons in a short time. WMD can be nuclear, radiological, biological or chemical.

Proliferation of Weapons of Mass Destruction - Proliferation involves the transfer and export of technology, goods, software, services or expertise that could be used in nuclear, chemical or biological weapon-related programmes, including delivery systems.

Proliferation financing - The act of providing funds or financial services which are used, in whole or in part for:

- (i) the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling or;
- (ii) the use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual use of goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations.

Source- *The Financial Action Task Force (FATF)*



Impact of Proliferation Financing upon Financial Services

The aim of proliferators is to obtain materials that can contribute to WMD programs and not be noticed. Proliferation networks come in all forms and can range from a single individual with internet access to a sophisticated criminal group. Typically, remittances for WMD occur through official financial systems due to high cost and the international sourcing of these items. Financial transactions supporting proliferation activity are usually channeled through third parties, shell companies, agents and brokers, and employ complex activities that leave the real parties to remain unaffiliated with the transactions themselves. Regulated Entities may encounter challenges with the implementation of appropriate internal controls for detecting and combating proliferation financing as this financial crime is sometimes difficult to identify. Nevertheless, each regulated entity's compliance programme should include the following to mitigate risks associated with proliferation financing:

- Human Resource training and awareness - Policies and procedures developed by regulated entities should include the implementation of effective controls to prevent and detect possible occurrences of proliferation financing. The culture of regulated entities as it relates to proliferation financing needs to be such that personnel are constantly trained and updated on any international, regional or local alerts of possible proliferators.
- KYC procedures geared to addressing threats of proliferation financing - Proliferators often disguise themselves with a front person or entity. FATF Recommendation 7 highlights the United Nations Security Council Resolutions (UNSCRs) which are related to the prevention, suppression and disruption of proliferation of WMD and its financing. The UNSCR has established designation criteria for persons or entities engaged in WMD related activities with Democratic People's Republic of Korea (DPRK) and Iraq and the related target financial sanctions. Although St. Kitts and Nevis is not designated as a WMD territory, our regulated entities can be exposed to funds possibly belonging to proliferators passing through the financial system, and are therefore obligated to ensure enhanced due diligence procedures are carried out, when necessary. Regulation 5 of the Anti-Money Laundering Regulations, (AMLR) No. 46 of 2011 and Anti-Terrorism (Prevention of Terrorist Financing) Regulations (ATR), No. 47 of 2011 provides guidance on executing enhanced due diligence procedures.
- Local Laws and Regulations- Regulated Entities should ensure that the controls implemented to combat the proliferation financing take into consideration the local laws of the Federation. This includes domestic enforcement actions for the treatment of funds and other assets directly or indirectly involved in activities associated with WMD.

Financial Intelligence

It is important to note that financial intelligence is vital to recognizing proliferation financing, including detecting networks and their financiers. Financial Intelligence Units (FIUs) play a strategic role in this regard. The role of the Financial Intelligence Unit of St. Christopher and Nevis is critical in obtaining appropriate financial intelligence as it relates to proliferation financing.

The Unit closely networks with international organizations and does any necessary analysis and investigations locally alongside the White Collar Crime Unit. Assistance may be sought from the Financial Services Regulatory Commission and other Competent Authorities as well as the regulated entities themselves to gather intelligence on persons or entities suspected of involvement in activities associated with WMD. The intelligence, if gathered in the initial stages of planned proliferation activities, can lead to relevant authorities being able to track financing and curtail the advancement of compiling WMD. These interconnections promote effective domestic and international coordination, cooperation, and information-sharing.

Working Together

It is estimated that at the beginning of 2011, Nuclear-Weapon States possessed more than 20,500 nuclear warheads, approximately 5,000 of which were deployed and ready for use. If WMD get into the hands of criminals, it can lead to eradication of a significant amount of the population. Therefore, it has to be a collaborated effort employed to counter proliferation financing.

In order to be optimal in fulfilling this objective, a country has to be proactive in its response as proliferation risks go beyond just implementing sanctions. To be effective, the design of proliferation financing controls must be expanded to identify anyone who attempts to engage in illicit activity. **All stakeholders need to be vigilant in screening customers as transactions are carried out.** Screening should be conducted:

1. When accepting a customer or establishing a business relationship.
2. From the initiation of a transaction with a supplier; and
3. The point of delivery of goods (final transaction).



Targeted Financial Sanctions

The United Nations Security Council (UNSC) has primary responsibility, under the United Nations Charter, for the maintenance of international peace and security, which could adversely be affected by WMD. As such, the UNSC in fulfilling this mandate seek to prevent raising, using and moving funds or other assets for proliferation financing. In 2004, the UNSC issued Resolution 1540; requiring countries to put in place a number of measures in order to prevent the proliferation of nuclear, chemical or biological weapons. It must be clearly noted that proliferation financing is interrelated with terrorism and terrorism financing. The Resolution encourages jurisdictions to assess their respective risks, identify those sectors and financial instruments that are most vulnerable to terrorism financing; and take the action necessary to remedy those risks, particularly by enhancing the traceability and transparency of financial transactions. In cases where funds involving proliferation financing or terrorist financing are identified, there must be measures in place to freeze funds without delay and apply targeted financial actions, where necessary.



Highlights of discussion:

1. What does proliferation financing entail?
2. How does proliferation financing affect financial services?
3. How can we be proactive in addressing proliferation financing financial transactions?
4. How do targeted financial sanctions affect proliferation financing?
5. How can we work together to counteract proliferation financing?
6. Synopsis of how to stop proliferation financing

References:

- * www.un.org
- * AML/CFT 101 CFATF Secretariat Research Desk May 29th 2020

